

CITY OF RICHWOOD
RICHWOOD, TEXAS

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
SEPTEMBER 30, 2015

KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566

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CITY OF RICHWOOD

Richwood, Texas

*Annual Financial Report
For the Year Ended September 30, 2015*

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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Independent Auditor's Report

To The Honorable Mayor and
Members of City Council
City of Richwood
Richwood, Texas

Reports on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Richwood (the "City") as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richwood, as of September 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the Financial Statements, in 2015, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, general fund budgetary comparison information, and the Texas Municipal Retirement System Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Contributions, and Texas Emergency Services Retirement System Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Investment Returns on pages 11 through 19 and 74 through 78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richwood's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To The Honorable Mayor and
Members of City Council
City of Richwood
Page 3

Other Matters – Continued

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Kerremers, Masters & Hunzford, LLC

Lake Jackson, Texas
February 16, 2016

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CITY OF RICHWOOD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2015

As management of the City of Richwood (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2015.

Financial Highlights

- The assets and deferred outflows of resources of the City of Richwood exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 13,425,564 (net position). Of this amount, \$ 84,396 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net position decreased by \$ 246,046.
- As of the close of the current fiscal year, the City of Richwood's governmental funds reported combined ending fund balances of \$ 1,207,432. 57.8% of this total amount, \$ 698,113 (unassigned fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 698,113 or 36.2% of the total general fund expenditures.
- During the year, the City reported net pension liability of \$ 508,610 at September 30, 2015 with the implementation of GASB statements Nos. 68 and 71.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference being reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

CITY OF RICHWOOD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2015

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general administration, public safety, public works, and parks and recreation. The *business-type activities* of the City include water and sewer and sanitation operations. The government-wide financial statements can be found on pages 22 through 25 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single aggregation presentation. The governmental fund financial statements can be found on pages 26 through 30 of this report.

- **Proprietary Funds.** The City maintains one category of *proprietary funds*-Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements can be found on pages 32 through 37 of this report.

CITY OF RICHWOOD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2015*

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38 through 72 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, and information concerning the City's net pension liability. Required supplementary information can be found on pages 74 and 78 of this report.

Combining and individual fund statements and schedules are presented following the required supplementary information. These statements and schedules can be found on pages 80 through 85 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 13,425,564 as of September 30, 2015.

The largest portion of the City's net position, \$ 13,070,930 (97.4%) reflects its investments in capital assets (e.g., land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$ 270,238 (2.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$ 84,396 (0.6%) may be used to meet the government's ongoing obligations to citizens and creditors.

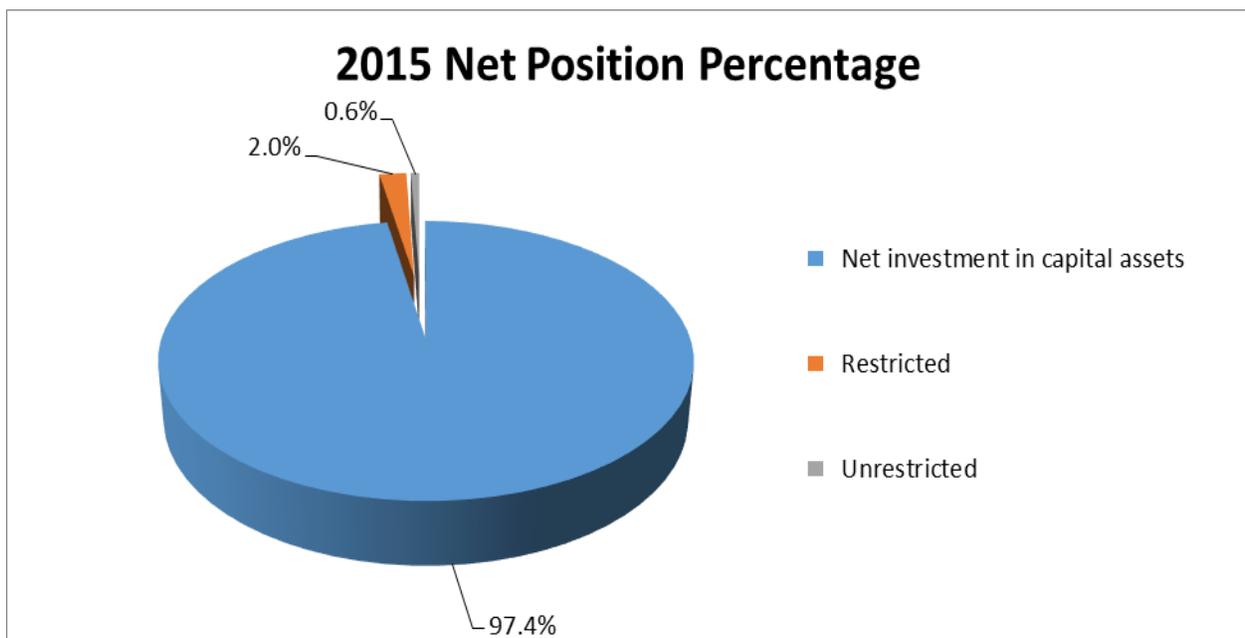
With the implementation of GASB Statements Nos. 68 and 71, comparable information for the year ended September 30, 2014 is not available, therefore, only one year is presented. Beginning with September 30, 2016 financial statements, comparative information will resume.

As of September 30, 2015, the City is able to report positive balances in all three categories of net position for the government as a whole and for governmental activities. Business-type activities had a positive balance in net investment in capital assets and a negative balance in unrestricted net position.

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

CITY OF RICHWOOD'S STATEMENT OF NET POSITION

	Governmental Activities	Business-type Activities	Totals
Current and other assets	\$ 1,373,485	\$(128,397)	\$ 1,245,088
Capital assets	<u>9,377,361</u>	<u>6,966,759</u>	<u>16,344,120</u>
Total assets	<u>10,750,846</u>	<u>6,838,362</u>	<u>17,589,208</u>
Deferred outflows of resources	<u>104,709</u>	<u>16,649</u>	<u>121,358</u>
Total deferred outflows of resources	<u>104,709</u>	<u>16,649</u>	<u>121,358</u>
Other liabilities	107,344	205,101	312,445
Long-term liabilities	<u>2,312,114</u>	<u>1,598,900</u>	<u>3,911,014</u>
Total liabilities	<u>2,419,458</u>	<u>1,804,001</u>	<u>4,223,459</u>
Deferred inflows of resources	<u>54,950</u>	<u>6,593</u>	<u>61,543</u>
Total deferred inflows of resources	<u>54,950</u>	<u>6,593</u>	<u>61,543</u>
Net Position:			
Net investment in capital assets	7,517,011	5,553,919	13,070,930
Restricted	270,238		270,238
Unrestricted	<u>593,898</u>	<u>(509,502)</u>	<u>84,396</u>
Total net position	<u>\$ 8,381,147</u>	<u>\$ 5,044,417</u>	<u>\$ 13,425,564</u>



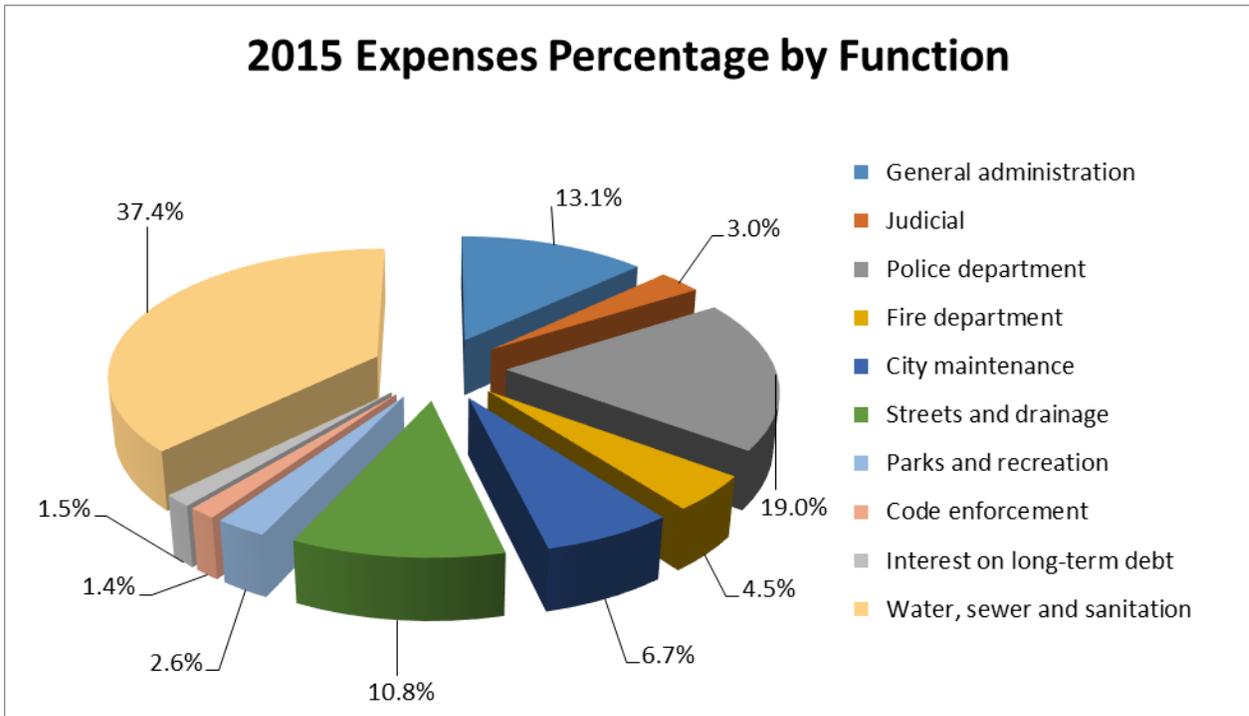
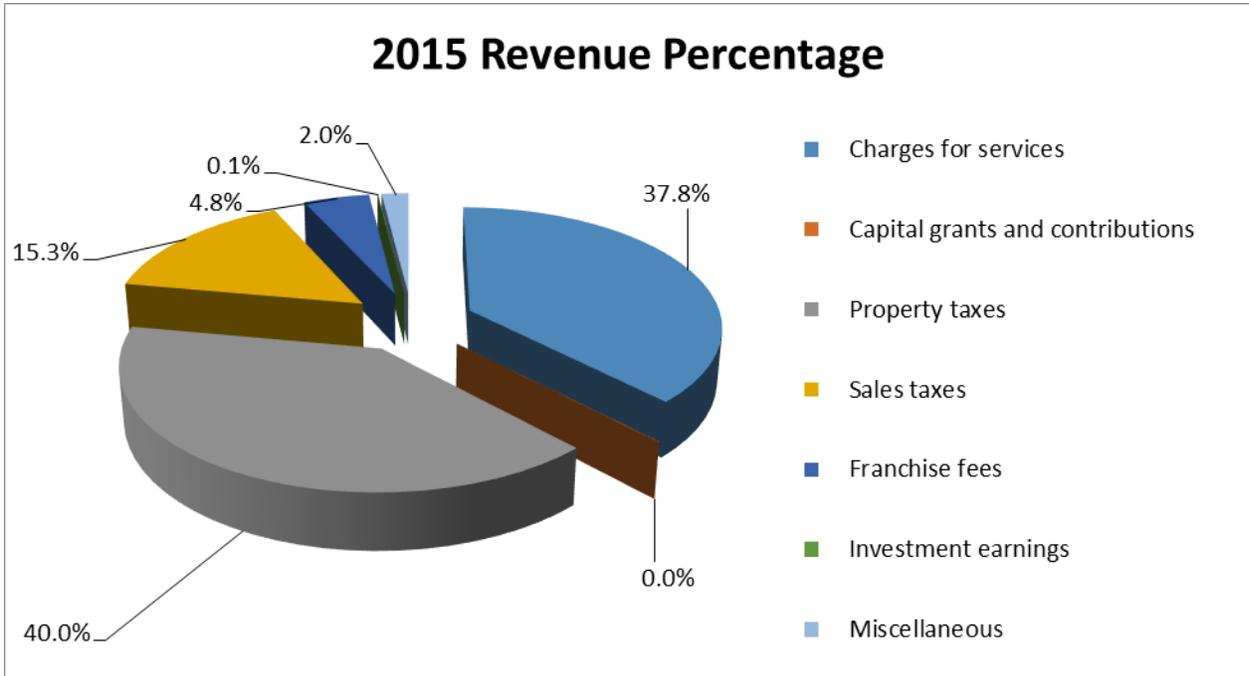
CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2015. Governmental activities increased the City's net position by \$ 66,720. Business-type activities decreased the City's net position by \$ 312,766.

CITY OF RICHWOOD'S STATEMENT OF ACTIVITY

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 318,313	\$ 1,006,243	\$ 1,324,556
Capital grants and contributions		1,491	1,491
General Revenues:			
Property taxes	1,404,872		1,404,872
Sales taxes	536,520		536,520
Franchise taxes	169,989		169,989
Investment earnings	1,605	317	1,922
Miscellaneous	<u>68,935</u>		<u>68,935</u>
Total revenues	<u>2,500,234</u>	<u>1,008,051</u>	<u>3,508,285</u>
Expenses:			
General administration	490,713		490,713
Judicial	113,292		113,292
Police department	713,986		713,986
Fire department	168,242		168,242
City maintenance	250,220		250,220
Streets and drainage	405,167		405,167
Parks and recreation	98,552		98,552
Code enforcement	53,625		53,625
Interest on long-term debt	56,390		56,390
Water, sewer and sanitation		<u>1,404,144</u>	<u>1,404,144</u>
Total expenses	<u>2,350,187</u>	<u>1,404,144</u>	<u>3,754,331</u>
Increases (decreases) in net position before transfers	150,047	(396,093)	(246,046)
Transfers	<u>(83,327)</u>	<u>83,327</u>	<u>-0-</u>
Changes in net position	66,720	(312,766)	(246,046)
Net position - beginning (restated)	<u>8,314,427</u>	<u>5,357,183</u>	<u>13,671,610</u>
Net position - ending	<u>\$ 8,381,147</u>	<u>\$ 5,044,417</u>	<u>\$ 13,425,564</u>

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015



CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

Financial Analysis of the City's Funds

As noted earlier, the City of Richwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Richwood's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Richwood's governmental funds reported ending fund balances of \$ 1,207,432. \$ 698,113 (57.8%) of this total amount constitutes unassigned fund balance. The remainder of the fund balance is either non-spendable, restricted or committed to indicate that it is not available for new spending as follows: 1) \$ 100,896 for long-term receivables, 2) \$ 859 for park, 3) \$ 6,219 for court security and technology, 4) \$ 748 for police training, 5) \$ 102,930 for debt service, 6) \$ 24,718 for street beautification, 7) \$ 31,438 for transportation, 8) \$ 13,348 for insurance, 9) \$ 73,659 for capital improvement, 10) \$ 35,230 for equipment replacement, and 11) \$ 119,274 for crime control and prevention.

The General Fund fund balance increased by \$ 226,395; the Debt Service Fund fund balance increased by \$ 7,865, and the Nonmajor Governmental Funds fund balance decreased by \$ 1,981.

Proprietary funds. As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

At September 30, 2015 the proprietary fund had deficit of \$ 509,502 in unrestricted net position Total net position decreased by \$ 312,766.

General Fund Budgetary Highlights. Actual revenues exceeded budget by \$ 252,786 mainly due to increased sales taxes. Actual expenditures were under budgetary estimates by \$ 3,830.

Capital Assets

The City of Richwood's investment in capital assets for its governmental and business-type activities as of September 30, 2015, was \$ 16,344,120 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress. During the year ended September 30, 2015, the City received contributed capital in the amount of \$ 1,491 which is reported within business-type activities as construction in progress.

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2015

**Capital Assets at Year-end
Net of Accumulated Depreciation**

	Governmental Activities	Business-type Activities	Totals
	September 30, 2015	September 30, 2015	September 30, 2015
Land	\$ 303,720	\$ 122,580	\$ 426,300
Buildings	1,684,412	90,861	1,775,273
Furniture, equipment and vehicles	369,182	78,257	447,439
Infrastructure	7,020,047	6,527,837	13,547,884
Construction in progress	<u> </u>	<u>147,224</u>	<u>147,224</u>
Total	<u>\$ 9,377,361</u>	<u>\$ 6,966,759</u>	<u>\$ 16,344,120</u>

Additional information on the City of Richwood's capital assets can be found in Note 7 on pages 56 through 58 of this report.

Debt Administration

At the end of the current fiscal year, the City of Richwood had total long-term liabilities of \$ 3,911,014. Of this amount, \$ 2,505,000 is comprised of bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. Further, the City has \$ 549,909 obligations under capital lease, \$ 279,045 note payable, and \$ 508,610 net pension liability.

**Outstanding Debt at Year End
Bonds Payable**

	Governmental Activities	Business-type Activities	Totals
	September 30, 2015	September 30, 2015	September 30, 2015
Certificates of obligation bonds	\$ 1,535,000	\$ 970,000	\$ 2,505,000
Capital lease		549,909	549,909
Note payable	279,045		279,045
Net pension liability	451,764	56,846	508,610
Premium on bonds	38,644		38,644
Accrued interest	<u>7,661</u>	<u>22,145</u>	<u>29,806</u>
Total	<u>\$ 2,312,114</u>	<u>\$ 1,598,900</u>	<u>\$ 3,911,014</u>

CITY OF RICHWOOD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2015*

All of the outstanding Bonds of the City payable from its limited taxes are insured and are, therefore, rated "Aaa" by Moody's Investors Service Inc ("Moody's"), and "AAA" by Standard & Poor's ("S&P"). The underlying rating on all of such Bonds and other obligations payable from such source are "A1" by Moody's and "A+" by S&P.

Additional information on the City of Richwood's long term debt can be found in Note 8 on pages 58 through 61 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2015-2016 Budget, General fund revenues are budgeted to increase by 8.3% from the 2014-2015 budget year due to increases in property values, general sales tax and building permit and related fees.

Certified assessed valuations increased by 9.2% over the preceding year. Property taxes will increase approximately 9.3%.

The Enterprise Fund's 2015-2016 budgeted expenditures are expected to increase by 12.5% over the preceding year's budget. Water and Sewer rates for the 2015-2016 budget year were increased this year.

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 1800 N. Brazosport Blvd, Richwood, Texas, 77531, or call (979) 265-2082.

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BASIC FINANCIAL STATEMENTS

CITY OF RICHWOOD
Richwood, Texas

STATEMENT OF NET POSITION

September 30, 2015

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
ASSETS:			
Cash and temporary investments	\$ 428,933	\$ 44,353	\$ 473,286
Investments	217,477	6,032	223,509
Receivables (Net):			
Property taxes	24,715		24,715
Accounts		194,013	194,013
Sales taxes	104,594		104,594
Accrued interest	185	29	214
Other	73,928		73,928
Interfund accounts	523,653	(523,653)	-0-
Restricted Assets:			
Temporarily Restricted:			
Cash and temporary investments		65,664	65,664
Investments		85,165	85,165
Capital Assets (Net of Accumulated Depreciation):			
Land	303,720	122,580	426,300
Buildings	1,684,412	90,861	1,775,273
Furniture, equipment and vehicles	369,182	78,257	447,439
Infrastructure	7,020,047	6,527,837	13,547,884
Construction in progress		147,224	147,224
Total assets	<u>10,750,846</u>	<u>6,838,362</u>	<u>17,589,208</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources	<u>104,709</u>	<u>16,649</u>	<u>121,358</u>
Total deferred outflows of resources	<u>104,709</u>	<u>16,649</u>	<u>121,358</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF NET POSITION - Continued

September 30, 2015

	Governmental Activities	Business- Type Activities	Total
LIABILITIES:			
Accounts payable	\$ 107,344	\$ 117,015	\$ 224,359
Liabilities Payable from Restricted Assets:			
Accrued interest payable		7,743	7,743
Revenue bonds payable - current		55,000	55,000
Customer deposits		88,086	88,086
Noncurrent Liabilities:			
Due within one year	169,041	72,156	241,197
Due in more than one year	2,143,073	1,464,001	3,607,074
Total liabilities	<u>2,419,458</u>	<u>1,804,001</u>	<u>4,223,459</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	<u>54,950</u>	<u>6,593</u>	<u>61,543</u>
Total deferred inflows of resources	<u>54,950</u>	<u>6,593</u>	<u>61,543</u>
NET POSITION:			
Net investment in capital assets	7,517,011	5,553,919	13,070,930
Restricted For:			
Park	859		859
Debt service	105,360		105,360
Special revenue	56,156		56,156
Court security and technology	6,219		6,219
Police training	748		748
Enterprise fund (Long-term receivable)	100,896		100,896
Unrestricted	<u>593,898</u>	<u>(509,502)</u>	<u>84,396</u>
Total net position	<u>\$ 8,381,147</u>	<u>\$ 5,044,417</u>	<u>\$ 13,425,564</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General administration	\$ 490,713	\$ 175,111	\$	\$
Judicial	113,292			
Police department	713,986	131,299		
Fire department	168,242			
City maintenance	250,220			
Streets and drainage	405,167			
Parks and recreation	98,552	11,903		
Code enforcement	53,625			
Interest on long-term debt	<u>56,390</u>			
Total governmental activities	<u>2,350,187</u>	<u>318,313</u>	<u>-0-</u>	<u>-0-</u>
Business-type Activities:				
Water, sewer and sanitation	<u>1,404,144</u>	<u>1,006,243</u>		<u>1,491</u>
Total business-type activities	<u>1,404,144</u>	<u>1,006,243</u>	<u>-0-</u>	<u>1,491</u>
Total	<u>\$ 3,754,331</u>	<u>\$ 1,324,556</u>	<u>\$ -0-</u>	<u>\$ 1,491</u>

General Revenue:

Taxes:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Sales taxes
- Franchise fees
- Investment earnings
- Miscellaneous
- Gain on disposition of capital assets
- Transfer in (out)

Total general revenues and transfers

Changes in net position

Net position – beginning (restated)

Net position – ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business- Type Activities	Total
\$(315,602)	\$	\$(315,602)
(113,292)		(113,292)
(582,687)		(582,687)
(168,242)		(168,242)
(250,220)		(250,220)
(405,167)		(405,167)
(86,649)		(86,649)
(53,625)		(53,625)
<u>(56,390)</u>		<u>(56,390)</u>
<u>(2,031,874)</u>	<u>-0-</u>	<u>(2,031,874)</u>
	<u>(396,410)</u>	<u>(396,410)</u>
<u>-0-</u>	<u>(396,410)</u>	<u>(396,410)</u>
<u>(2,031,874)</u>	<u>(396,410)</u>	<u>(2,428,284)</u>
1,234,930		1,234,930
169,942		169,942
536,520		536,520
169,989		169,989
1,605	317	1,922
62,229		62,229
6,706		6,706
<u>(83,327)</u>	<u>83,327</u>	<u>-0-</u>
<u>2,098,594</u>	<u>83,644</u>	<u>2,182,238</u>
66,720	(312,766)	(246,046)
<u>8,314,427</u>	<u>5,357,183</u>	<u>13,671,610</u>
<u>\$ 8,381,147</u>	<u>\$ 5,044,417</u>	<u>\$ 13,425,564</u>

CITY OF RICHWOOD
Richwood, Texas

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets and Deferred Outflows of Resources</u>				
Assets:				
Cash and cash equivalents	\$ 324,934	\$ 47,843	\$ 56,156	\$ 428,933
Investments	162,945	54,532		217,477
Receivables:				
Property taxes (net)	21,795	2,920		24,715
Sales taxes	104,594			104,594
Accrued interest	120	65		185
Other	36,017			36,017
Due from other funds	<u>523,653</u>			<u>523,653</u>
 Total assets	 <u>1,174,058</u>	 <u>105,360</u>	 <u>56,156</u>	 <u>1,335,574</u>
Deferred Outflows of Resources:				
Deferred outflows of resources				<u>-0-</u>
 Total deferred outflows of resources	 <u>-0-</u>	 <u>-0-</u>	 <u>-0-</u>	 <u>-0-</u>
 Total assets and deferred outflows of resources	 <u>\$ 1,174,058</u>	 <u>\$ 105,360</u>	 <u>\$ 56,156</u>	 <u>\$ 1,335,574</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

**BALANCE SHEET
GOVERNMENTAL FUNDS - Continued**

September 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
Liabilities:				
Accounts payable and accrued expenditures	\$ <u>107,344</u>	\$ _____	\$ _____	\$ <u>107,344</u>
Total liabilities	<u>107,344</u>	<u>-0-</u>	<u>-0-</u>	<u>107,344</u>
Deferred Inflows of Resources:				
Deferred inflows of resources – property taxes	<u>18,368</u>	<u>2,430</u>	_____	<u>20,798</u>
Total deferred inflows of resources	<u>18,368</u>	<u>2,430</u>	<u>-0-</u>	<u>20,798</u>
Fund Balances:				
Non-spendable:				
Enterprise fund (Long-term receivable)	100,896			100,896
Restricted:				
Park	859			859
Debt service		102,930		102,930
Court security and technology	6,219			6,219
Police training	748			748
Street beautification			24,718	24,718
Transportation			31,438	31,438
Committed:				
Insurance	13,348			13,348
Capital improvement	73,659			73,659
Equipment replacement	35,230			35,230
Crime control and prevention	119,274			119,274
Unassigned	<u>698,113</u>			<u>698,113</u>
Total fund balances	<u>1,048,346</u>	<u>102,930</u>	<u>56,156</u>	<u>1,207,432</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,174,058</u>	<u>\$ 105,360</u>	<u>\$ 56,156</u>	<u>\$ 1,335,574</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION

September 30, 2015

Total fund balances – governmental funds balance sheet	\$ 1,207,432
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 14,270,253 in assets less \$ 4,892,892 in accumulated depreciation.	9,377,361
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 18,368 and \$ 2,430, respectively.	20,798
Municipal court receivables unavailable to pay for current period expenditures are not recognized in the governmental funds. Municipal court receivables of \$ 157,771, net of allowance of \$ 119,860.	37,911
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increases long-term liabilities in the governmental activities statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was \$ 38,644 (premium on sale of bonds of \$ 46,091 less amortization of \$ 7,447)	(38,644)
Pension deferred outflows of resources of \$ 110,726 less amortization of \$ 6,017.	104,709
Pension deferred inflows of resources of \$ 76,409 less amortization of \$ 21,459.	(54,950)
Net pension liability is not reported in the funds.	(451,764)
Payables for bond principal and note are not reported in the funds.	(1,814,045)
Payables for bond interest are not reported in the funds.	<u>7,661</u>)
Net position of governmental activities – statement of net position.	<u>\$ 8,381,147</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended September 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes:				
Property taxes	\$ 1,233,180	\$ 169,734	\$	\$ 1,402,914
Sales taxes	536,520			536,520
Franchise fees	169,989			169,989
Revenue producing facilities	11,903			11,903
Fines and fees	129,706			129,706
Licenses and permits	71,651			71,651
Investment earning	1,267	311	27	1,605
Transportation			103,460	103,460
Miscellaneous	<u>54,968</u>		<u>7,261</u>	<u>62,229</u>
Total revenues	<u>2,209,184</u>	<u>170,045</u>	<u>110,748</u>	<u>2,489,977</u>
Expenditures:				
Current:				
General administration	421,163		14,589	435,752
Judicial	115,662			115,662
Police department	682,450			682,450
Fire department	127,980			127,980
City maintenance	249,278			249,278
Streets and drainage	97,803		99,140	196,943
Parks and recreation	77,181			77,181
Code enforcement	54,003			54,003
Capital outlay	103,148			103,148
Debt Service:				
Principal retirement		103,042		103,042
Interest and agent fees		<u>59,138</u>		<u>59,138</u>
Total expenditures	<u>1,928,668</u>	<u>162,180</u>	<u>113,729</u>	<u>2,204,577</u>
Excess of revenues (under) expenditures	<u>280,516</u>	<u>7,865</u>	<u>(2,981)</u>	<u>285,400</u>
Other Financing Sources (Uses):				
Proceeds from insurance	30,206			30,206
Transfer in			1,000	1,000
Transfer out	<u>(84,327)</u>			<u>(84,327)</u>
Total other financing sources (uses)	<u>(54,121)</u>	<u>-0-</u>	<u>1,000</u>	<u>(53,121)</u>
Net changes in fund balances	226,395	7,865	(1,981)	232,279
Fund balances - beginning	<u>821,951</u>	<u>95,065</u>	<u>58,137</u>	<u>975,153</u>
Fund balances - ending	<u>\$ 1,048,346</u>	<u>\$ 102,930</u>	<u>\$ 56,156</u>	<u>\$ 1,207,432</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2015

Net change in fund balances – total governmental funds	\$ 232,279
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which capital outlay \$ 103,148 less depreciation \$ 401,494 in the current period.	(298,346)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund increased by \$ 1,750 and for the debt service fund increased by \$ 208, respectively.	1,958
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. The amount was for general obligation bonded debt and note in the amount of \$ 103,042.	103,042
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the governmental activities statement of net position. This amount is accreted over the life of the bonds. Current premium on the issuance of bonds and amortization of the premium of bonds were \$ -0- and \$ 2,290.	2,290
Governmental funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by an actuary and involves multiple factors. The amount of pension expense reported was \$ 46,946 less than the amount reported in the funds.	46,946
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	458
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, increased by \$ 1,593.	1,593
Governmental funds report proceeds from insurance on damaged capital assets as revenue. However, in the governmental activities statement of activities, the cost of the assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The cost of assets disposed was \$ 23,500 (cost of \$ 30,000 less accumulated depreciation of \$ 6,500).	(<u>23,500</u>)
Change in net position of governmental activities	\$ <u><u>66,720</u></u>

The notes to the financial statements are an integral part of this statement.

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CITY OF RICHWOOD
Richwood, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUND

September 30, 2015

	<u>Enterprise Fund</u>
<u>Assets and Deferred Outflows of Resources</u>	
Current Assets:	
Cash and cash equivalents	\$ 44,353
Investments	6,032
Utility accounts receivable (less allowance for uncollectibles)	194,013
Accrued interest receivable	<u>29</u>
Total current unrestricted assets	<u>244,427</u>
Current Restricted Assets:	
Cash and cash equivalents	65,664
Investments	<u>85,165</u>
Total current restricted assets	<u>150,829</u>
Total current assets	<u>395,256</u>
Capital Assets:	
Property, plant and equipment	11,670,768
Less accumulated depreciation	<u>(4,704,009)</u>
Total capital assets (net of accumulated depreciation)	<u>6,966,759</u>
Total assets	<u>7,362,015</u>
Deferred Outflows of Resources:	
Deferred outflows of resources	<u>16,649</u>
Total deferred outflows of resources	<u>16,649</u>
Total assets and deferred outflows of resources	<u>\$ 7,378,664</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF NET POSITION - PROPRIETARY FUND - Continued

September 30, 2015

	Enterprise Fund
<u>Liabilities, Deferred Inflows of Resources, and Net Position</u>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 117,015
Accrued interest payable	14,402
Due to other funds (includes current portion notes of \$ 13,564)	436,321
Capital lease payable	52,069
Net pension liability	<u>5,685</u>
Total current liabilities payable from non-restricted assets	<u>625,492</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	7,743
Customer deposits	88,086
Revenue bonds payable	<u>55,000</u>
Total current liabilities payable from restricted assets	<u>150,829</u>
Total current liabilities	<u>776,321</u>
Noncurrent Liabilities:	
Due to other funds (notes)	87,332
Capital lease payable	497,840
Revenue bonds payable	915,000
Net pension liability	<u>51,161</u>
Total noncurrent liabilities	<u>1,551,333</u>
Total liabilities	<u>2,327,654</u>
Deferred Inflows of Resources:	
Deferred inflows of resources	<u>6,593</u>
Total deferred inflows of resources	<u>6,593</u>
Net Position:	
Net investment in capital assets	5,553,919
Unrestricted	<u>(509,502)</u>
Total net position	<u>5,044,417</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,378,664</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD
Richwood, Texas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUND**

For the Year Ended September 30, 2015

	<u>Enterprise Fund</u>
Operating Revenues:	
Water service	\$ 515,095
Sewer fees	444,184
Garbage fees	8,968
Delinquent charges	22,444
Tap and reconnect fees	8,632
Miscellaneous	<u>6,920</u>
Total operating revenues	<u>1,006,243</u>
Operating Expenses:	
Personnel costs	243,418
Sewer treatment plant operations	203,917
Water costs – BWA	192,994
Lease	133,299
Utilities and telephone	49,293
Repairs and maintenance	108,921
Supplies	31,456
Miscellaneous	<u>24,413</u>
Operating expenses before depreciation	987,711
Depreciation	<u>332,151</u>
Total operating expenses	<u>1,319,862</u>
Operating loss	<u>(313,619)</u>
Non-Operating Revenues (Expenses):	
Investment earning	317
Interest expense and agent fees	<u>(84,282)</u>
Total non-operating revenues (expenses)	<u>(83,965)</u>
Loss before contributions and operating transfers	<u>(397,584)</u>
Capital contributions	1,491
Transfer in	<u>83,327</u>
Change in net position	<u>(312,766)</u>
Net position – beginning (restated)	<u>5,357,183</u>
Net position - ending	<u>\$ 5,044,417</u>

The notes to the financial statements are an integral part of this statement.

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CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND**

For the Year Ended September 30, 2015

	<u>Enterprise Fund</u>
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 983,843
Payments to other funds	195,706
Payments to suppliers	(715,596)
Payments to employees	<u>(252,033)</u>
Net cash provided by operating activities	<u>211,920</u>
Cash Flows from Non-Capital Financing Activities:	
Operating transfers in	<u>83,327</u>
Net cash provided by non-capital financing activities	<u>83,327</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(107,992)
Bond principal payments	(55,000)
Capital lease payments	(50,091)
Interest and fiscal charge payments	<u>(86,000)</u>
Net cash used for capital and related financing activities	<u>(299,083)</u>
Cash Flows from Investing Activities:	
Proceeds from the sale of investments	111,973
Purchase of investments	(91,197)
Interest received	<u>317</u>
Net cash provided by investing activities	<u>21,093</u>
Net increase in cash and cash equivalents	17,257
Cash and cash equivalents at the beginning of year	<u>92,760</u>
Cash and cash equivalents at the end of the year	<u>\$ 110,017</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND - Continued**

For the Year Ended September 30, 2015

	<u>Enterprise Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Operating income (loss)	\$(<u>313,619</u>)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Depreciation	332,151
(Increase) decrease in accounts receivable	(25,821)
Increase (decrease) in accounts payable	28,697
Increase (decrease) in due to other funds	195,706
Increase (decrease) in pension liability	(8,615)
Increase (decrease) in customer deposits	<u>3,421</u>
Total adjustments	<u>525,539</u>
Net cash provided by operating activities	<u>\$ 211,920</u>
Non-Cash Transactions Affecting Financial Position:	
Capital contributions - grants	\$ 1,491
Capital improvements	<u>(1,491)</u>
Net effect of non-cash transactions	<u>\$ -0-</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

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CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Richwood (City) operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public services (utility facilities), public recreation, public benefits (health and welfare), and general administrative services.

The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

The City's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

Reporting Entity

The City is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the City's financial reporting entity. Based on these considerations, the City's basic financial statements do not include any other entities. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reporting Entity - Continued

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The members of City council (the "members") are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". There are no component units included within the reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide and Fund Financial Statements - Continued

Interfund activities between governmental funds appear as due to/due from on the Governmental Funds Balance Sheet and as other resources and other uses on the Governmental Funds Statement of Revenues, Expenditure and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and proprietary funds remain as receivables and payables on the government-wide statement of net position.

Separate financial statements are provided for governmental funds and proprietary funds. The City does not have any fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has only one proprietary fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, municipal court revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City has presented the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *Debt Service Fund* accounts for the accumulation of resources for the annual payment of general long-term debt principal and interest of the governmental funds.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City reports the following major proprietary fund:

The Enterprise Fund is used to account for the provision of water, sewer and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility and sanitation customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. The City also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The statement was implemented and did have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 69, "Government Combinations and Disposals of Government Operations", was issued January 2013. The statement was implemented and did not have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2013.

GASB Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees", was issued April 2013. The statement was implemented and did not have a material effect on the City's financial statements. This statement is effective for periods beginning after June 15, 2013.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68", was issued November 2013. The statement was implemented and did have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2014.

GASB No. 72, "Fair Value Measurement and Application" was issued February 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City, however there will be additional disclosures related to Fair Values. This statement is effective for periods beginning after June 15, 2015.

GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2015.

GASB No. 77 "Tax Abatement Disclosures" was issued in August 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2015.

GASB No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" was issued in December 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after December 15, 2015.

GASB No. 79, "Certain External Investment Pools and Pool Participants" was issued in December 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which is effective for reporting periods beginning after December 15, 2015.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data

All departments of the City submit requests for appropriation to the City Secretary so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to the Mayor and City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level. Line item and department budgets may exceed appropriated amounts at the discretion of the City Council as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all significant governmental fund types (General Fund, Debt Service Fund, and Special Revenue Fund) and proprietary fund type (Enterprise Fund).

The City prepares its annual budget on a generally accepted accounting principles basis (GAAP basis). The budget and all transactions are presented in accordance with the City's GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Debt Service and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

Encumbrances

The City utilizes encumbrance accounting, in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executor contracts), and are used to control expenditures for the period and to enhance cash management. The City often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.

Prior to the end of the current period, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the current period end, the City likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the current period. If the City allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually re-appropriated in the following year's budget. Open encumbrances at current period-end are included in restricted, committed or assigned fund balance, as appropriate.

The City's encumbrances amounted to \$ 576 in general fund as September 30, 2015.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date of three months or less. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. Temporary investments are stated at cost. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Inventory

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of gasoline and office supplies are recorded as expenditures when acquired. Inventory on hand at the end of the year is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2015 was not significant and therefore, is not recorded.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. See Note 6 for additional discussion of interfund receivables and payables.

Capital Assets

Capital assets, which includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest cost to be capitalized on assets with tax-exempt borrowing is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. During the year ended September 30, 2015, no capitalized interest was recorded.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	31-40 Years
Furniture, equipment and vehicles	5-10 Years
Infrastructure:	
Water and sewer system	45 Years
General infrastructure assets	40-45 Years

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the City is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the City, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on July 13, 2014, upon which the levy for the 2014-15 fiscal year was based, was \$ 188,016,565. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to penalty and Interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended September 30, 2015, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.646369 and \$ 0.089311 per \$ 100 valuation, respectively, for a total of \$ 0.73568 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2015 were 99.55% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2015, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 21,795 and \$ 2,920 for the general and debt service funds, respectively.

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. The City has not recorded any bond premiums and discounts. Bond issuance costs are reported as expenditures or expenses in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The City has not received any premiums and or discounts on debt issuances.

Fund Balances

The City Council of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City's Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the City Council. Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action by the City Council. When it is appropriate for fund balance to be assigned, the City Council delegates authority to the City Manager or City Secretary. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Balances - Continued

Beginning with fiscal 2011, the City implemented GASB Statement No. 54, "Fund Balance, Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on government's fund balance more transparent. The following classifications describe the relative strength of spending constraints:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

As of September 30, 2015, non-spendable fund balance includes \$ 100,896 for long-term receivable in the general fund. Restricted fund balances include \$ 859 for park, \$ 6,219 for court security and technology, \$ 748 for police training in the general fund, \$ 102,930 for debt service in the debt service fund, and \$ 24,718 for street beautification and \$ 31,438 for transportation in the special revenue funds. Committed fund balance includes \$ 13,348 for insurance, \$ 73,659 for capital improvement, \$ 35,230 for equipment replacement, and \$ 119,274 for crime control and prevention in the general fund. Unassigned fund balance includes \$ 698,113 in the general fund.

Net Position

Net position represents the differences between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENT

During the year ended September 30, 2015, the City implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", and GASB Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – and amendment of GASB No. 68". GASB Statement No. 68 establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. GASB Statement 71, amendment of GASB Statement No. 68, addresses the issue regarding application of the transition provisions. It requires a government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, it requires that the government recognize its contribution as a deferred outflow of resources. The following represents the retroactive restatement of net position as a result of implementation of GASB Statements No. 68 and 71 and prior period adjustment as noted above:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net position, September 30, previously reported	\$ 8,763,378	\$ 5,412,588	\$ 14,175,966
Addition of outflows of resources – subsequent pension contributions	73,561	9,107	82,668
Addition of net pension obligation	<u>(522,512)</u>	<u>(64,512)</u>	<u>(587,024)</u>
Total	<u>\$ 8,314,427</u>	<u>\$ 5,357,183</u>	<u>\$ 13,671,610</u>

Information was not available to restate the September 30, 2013 net position or the changes in net position for the year ended September 30, 2014, therefore, the MD&A presentation does not report comparative statements for the year ended September 30, 2014. Further, this change in accounting principle had no effect on governmental fund fund balance or changes in fund balance.

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, and investments, as reported on the statement of net position at September 30, 2015, are as follows:

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 800	\$	\$ 800
Financial Institution Deposits:			
Demand deposits	89,809		89,809
Certificates of deposit	194,984		194,984
Local Government Investment Pool:			
Texpool	82,011	64,860	146,871
TexStar	45,878		45,878
Logic	<u>59,804</u>	<u>804</u>	<u>60,608</u>
Total cash and temporary investments	<u>473,286</u>	<u>65,664</u>	<u>538,950</u>
Investments:			
Financial Institution Deposits:			
Certificates of deposit	<u>223,509</u>	<u>85,165</u>	<u>308,674</u>
Total	<u>\$ 696,795</u>	<u>\$ 150,829</u>	<u>\$ 847,624</u>

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At year end, except \$ 800 petty cash, the carrying amount of the City's deposits was \$ 593,467, while the financial institution balances totaled \$ 607,302. Of the financial institution balances, \$ 379,784 was covered by federal depository insurance, and \$ 227,518 was covered by collateral held by the City's agent in the City's name.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes and "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The City is invested in a certificate of deposit at Brazos National Bank and First National Bank to provide its liquidity needs. It has a maturity of less than 365 days. This investment is insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The City participates in three Local Government Investment Pools (LGIPs): TexPool, Logic, and TexSTAR. The State Comptroller oversees TexPool and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Although there is no regulatory oversight over Logic and TexSTAR, advisory boards consisting of participants or their designees, maintains oversight responsibility for Logic and TexSTAR.

The City invests in TexPool, Logic, and TexSTAR to provide its liquidity needs. TexPool, Logic, and TexSTAR are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. TexPool, Logic, and TexSTAR are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. TexPool, Logic,

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

and TexSTAR are rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At September 30, 2015 TexPool, Logic, and TexSTAR had a weighted average maturity of 40 days, 53 days, and 39 days, respectively. Although TexPool, Logic, and TexSTAR portfolios had a weighted average maturity of 40 days, 53 days, and 39 days, respectively, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The following table includes the portfolio balances of all investment types of the City at September 30, 2015.

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Weighted Average Maturity (Days)</u>	<u>Investment Balance</u>
Certificate of Deposit	01-13-16	0.20%	105	\$ 124,449
Certificate of Deposit	01-27-16	0.15%	119	58,142
Certificate of Deposit	02-19-16	0.20%	142	<u>126,083</u>
Total Certificates of Deposit			123	<u>308,674</u>
Local Government Investment Pool:				
TexPool	N/A	Varies daily	40	146,871
TexSTAR	N/A	Varies daily	39	45,878
Logic	N/A	Varies daily	53	<u>60,608</u>
Total Local Government Investment Pool			43	<u>253,357</u>
Total investments			87	<u>\$ 562,031</u>

Credit Risk - As of September 30, 2015, the LGIPs (which represent approximately 45.1% of the investment portfolio) are rated AAAM by Standard and Poor's or AAA by Finch, while the remainder is invested in fully secured certificates of deposit.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days of the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the City's cash flow requirements.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 3 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2015, and holds no direct investments in derivatives at September 30, 2015.

NOTE 4 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes

Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The following is a summary of the allowance for uncollectible taxes by fund:

General Fund	\$	17,099
Debt Service Fund		<u>1,987</u>
Total	\$	<u><u>19,086</u></u>

Municipal Court Receivables

Municipal court receivables are reported in the governmental activities statement of net position. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectibility in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2015 was \$ 119,860.

NOTE 5 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE

Governmental Funds

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue). There is no unearned revenue as of September 30, 2015.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 5 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE - Continued

Governmental Funds - Continued

As of September 30, 2015, the following components of deferred inflows of resources were reported in the governmental funds:

	<u>Deferred Inflows of Resources (Unavailable)</u>
Delinquent property taxes receivable (general fund)	\$ 18,368
Delinquent property taxes receivable (debt service fund)	<u>2,430</u>
Total deferred inflows of resources	<u>\$ 20,798</u>

Governmental and Business-Type Activities

Governmental and business-type activities defer the recognition of pension expense for contributions made from the measurement date to the current year-end of September 30, 2015 and report these as deferred outflows of resources. Governmental and business-type activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental and business-type activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of September 30, 2015, the various components of deferred inflows and outflows of resources reported in the governmental and business-type activities were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<u>Governmental Activities</u>		
TMRS deferred inflows and outflows of resources		
less current amortization	\$ 18,050	\$ 48,356
TESRS deferred inflows of resources less current amortization		6,594
Pension contributions subsequent to the measurement date	<u>86,659</u>	<u> </u>
Totals	<u>\$ 104,709</u>	<u>\$ 54,950</u>
<u>Business-Type Activities</u>		
TMRS deferred inflows and outflows of resources		
less current amortization	\$ 2,462	\$ 6,593
Pension contributions subsequent to the measurement date	<u>14,187</u>	<u> </u>
Totals	<u>\$ 16,649</u>	<u>\$ 6,593</u>

There were no unearned revenues reported in the governmental and business-type activities as of September 30, 2015.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Receivables and Payables

Interfund balances at September 30, 2015 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Enterprise fund	\$ <u>523,653</u>	\$ _____
Total general fund	<u>523,653</u>	<u>-0-</u>
Enterprise Fund:		
General fund	_____	<u>523,653</u>
Totals	<u>\$ <u>523,653</u></u>	<u>\$ <u>523,653</u></u>

During the year ended September 30, 2009, the General Fund loaned the Enterprise Fund \$ 140,000 for the relocation of water and sewer lines on the FM 2004 expansion project. This loan is considered a long-term receivable in the General Fund and a long-term payable in the Enterprise Fund. Monthly principal and interest payments are required with a 2.00% interest rate. During the year ended September 30, 2015, the enterprise fund made no payments to the General Fund, therefore \$ 21,140 (\$ 13,564 principal and \$ 7,576 interest) is past due. The following is the repayment schedule as of September 30, 2015:

<u>Year Ended September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 13,564	\$ 7,576	\$ 29,022
2017	13,838	1,620	15,458
2018	14,117	1,341	15,458
2019	14,402	1,056	15,458
2020	14,693	765	15,458
2021	14,990	469	15,459
2022	<u>15,292</u>	<u>166</u>	<u>15,458</u>
	<u>\$ <u>100,896</u></u>	<u>\$ <u>12,993</u></u>	<u>\$ <u>113,889</u></u>

Other interfund balances represent short-term borrowing primarily for cash flow purposes. These include revenue or expenditure/expenses adjustment between funds at or near year-end.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - Continued

Interfund Transfers

Interfund transfers for the year ended September 30, 2015 consisted of the following individual fund transfers in and transfers out:

<u>Transferring Fund</u>	<u>Receiving Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$ 1,000
General Fund	Enterprise Fund	<u>83,327</u>
		<u>\$ 84,327</u>

These transfers were approved by the City Council as transfer of operational funds to cover planned expenditures in special revenue fund and enterprise fund.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015, was as follows:

	<u>Balance 10/01/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09/30/15</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 303,720	\$	\$	\$ 303,720
Construction in progress	<u>58,775</u>	<u></u>	<u>58,775</u>	<u>-0-</u>
Total capital assets, not being depreciated	<u>362,495</u>	<u>-0-</u>	<u>58,775</u>	<u>303,720</u>
Capital Assets, Being Depreciated:				
Buildings	1,874,250	58,775		1,933,025
Equipment	1,584,392	103,148	30,000	1,657,540
Infrastructure	<u>10,375,968</u>	<u></u>	<u></u>	<u>10,375,968</u>
Total capital assets, being depreciated	<u>13,834,610</u>	<u>161,923</u>	<u>30,000</u>	<u>13,966,533</u>
Less Accumulated Depreciation For:				
Buildings	198,897	49,716		248,613
Equipment	1,147,304	147,554	6,500	1,288,358
Infrastructure	<u>3,151,697</u>	<u>204,224</u>	<u></u>	<u>3,355,921</u>
Total accumulated depreciation	<u>4,497,898</u>	<u>401,494</u>	<u>6,500</u>	<u>4,892,892</u>
Total capital assets, being depreciated, net	<u>9,336,712</u>	<u>\$(239,571)</u>	<u>\$ 23,500</u>	<u>9,073,641</u>
Governmental activities capital assets, net	<u>\$ 9,699,207</u>			<u>\$ 9,377,361</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 7 - CAPITAL ASSETS - Continued

	<u>Balance</u> <u>10/01/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>09/30/15</u>
Business-type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 122,580	\$	\$	\$ 122,580
Construction in progress	<u>145,733</u>	<u>1,491</u>	<u></u>	<u>147,224</u>
Total capital assets, not being depreciated	<u>268,313</u>	<u>1,491</u>	<u>-0-</u>	<u>269,804</u>
Capital Assets, Being Depreciated:				
Buildings	193,270			193,270
Equipment	278,861	24,665		303,526
Infrastructure	<u>10,820,839</u>	<u>83,327</u>	<u></u>	<u>10,904,166</u>
Total capital assets, being depreciated	<u>11,292,970</u>	<u>107,992</u>	<u>-0-</u>	<u>11,400,962</u>
Less Accumulated Depreciation For:				
Buildings	95,915	6,494		102,409
Equipment	200,741	24,528		225,269
Infrastructure	<u>4,075,200</u>	<u>301,129</u>	<u></u>	<u>4,376,329</u>
Total accumulated depreciation	<u>4,371,856</u>	<u>332,151</u>	<u>-0-</u>	<u>4,704,007</u>
Total capital assets, being depreciated, net	<u>6,921,114</u>	<u>\$(224,159)</u>	<u>\$ -0-</u>	<u>6,696,955</u>
Business-type activities capital assets, net	<u>\$ 7,189,427</u>			<u>\$ 6,966,759</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General administration	\$ 62,152
City maintenance	4,850
Streets and drainage	208,224
Police department	46,068
Fire department	58,829
Parks and recreation	<u>21,371</u>
Total depreciation expense-governmental activities	<u>\$ 401,494</u>
Business-type Activities:	
Water and sewer	<u>\$ 332,151</u>
Total depreciation expense-business-type activities	<u>\$ 332,151</u>

Contributed Capital

During the year ended September 30, 2015 the City received contributed capital in the amount of \$ 1,491 which is reported within business-type activities as construction in progress.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 7 - CAPITAL ASSETS - Continued

Governmental Fund Construction Commitments

The City has no governmental fund construction commitment at September 30, 2015.

Proprietary Fund Construction Commitments

The City has no proprietary fund construction commitment at September 30, 2015.

NOTE 8 - LONG-TERM DEBT

General Obligation Bonds/Certificates of Obligation

In July 2011, the City issued City of Richwood, Texas General Obligation Refunding Bonds, Series 2011 in the amount of \$ 740,000 to refund the City of Richwood, Texas Tax and Revenue Certificates of Obligation Bonds, Series 1999. Interest rate for these bonds is 3.13%.

In July 2012, the City issued City of Richwood, Texas Combined Tax and Revenue Certificates of Obligation Bonds, Series 2012 in the amount of \$ 1,115,000 to fund the purchase and construction of the new city hall.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2015, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/15
		Issued	Maturity	Callable	
General Obligation Refunding Bonds, Series 2011	3.13%	2011	2024		\$ 550,000
Certificate of Obligation Bond, Series 2012	2.00-3.50%	2012	2032		<u>985,000</u>
Total					<u>\$ 1,535,000</u>

General obligation bond transactions for the year ended September 30, 2015 were as follows:

Bonds outstanding, October 1, 2014	\$ 1,630,000
Maturities	<u>(95,000)</u>
Bonds outstanding, September 30, 2015	<u>\$ 1,535,000</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 8 - LONG-TERM DEBT - Continued

General Obligation Bonds/Certificates of Obligation - Continued

The following is a summary of general obligation and certificate of obligation bond requirements for governmental activities by year as of September 30, 2015:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 100,000	\$ 48,065	\$ 148,065
2017	100,000	45,444	145,444
2018	110,000	42,822	152,822
2019	105,000	39,944	144,944
2020	110,000	37,223	147,223
2021-2025	540,000	131,996	671,996
2026-2030	325,000	60,200	385,200
2031-2032	<u>145,000</u>	<u>7,700</u>	<u>152,700</u>
Total	<u>\$ 1,535,000</u>	<u>\$ 413,394</u>	<u>\$ 1,948,394</u>

Notes

During the year ended September 30, 2013, the City received a loan of \$ 300,000 from the First National Bank of Lake Jackson to finance the completion of the City Hall building. Quarterly principal and interest payments of \$ 5,347 are required with a 3.75% interest rate. During the year ended September 30, 2015, the City paid \$ 8,042 in principle and \$ 7,999 in interest. The following is the note repayment schedule as of September 30, 2015:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 13,914	\$ 12,822	\$ 26,736
2017	11,608	9,780	21,388
2018	12,050	9,339	21,389
2019	12,508	8,881	21,389
2021	12,984	8,405	21,389
2021-2025	72,711	34,232	106,943
2026-2030	87,630	19,313	106,943
2031-2033	<u>55,640</u>	<u>3,178</u>	<u>58,818</u>
Total	<u>\$ 279,045</u>	<u>\$ 105,950</u>	<u>\$ 384,995</u>

Revenue Bonds/Certificates of Obligation

In July 2004, the City issued \$ 500,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2004 to finance improvements to the existing wastewater system (the "Project"). Interest rates on these bonds range from 2.75% to 5.70%. These certificates of obligation were purchased by the Texas Water Development Board.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 8 - LONG-TERM DEBT - Continued

Revenue Bonds/Certificates of Obligation - Continued

In July 2011, the City issued \$ 770,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2011 to finance improvements to the existing wastewater system. Interest rates on these bonds were 3.89%.

Revenue and certificates of obligation payable from business-type activities at September 30, 2015, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/15
		Issued	Maturity	Callable	
Certificates of Obligation:					
Combination Tax and Revenue, Series 2004	2.75 - 5.70	2004	2025		\$ 310,000
Combination Tax and Revenue, Series 2011	3.89	2011	2031	2020	<u>660,000</u>
Total					<u>\$ 970,000</u>

Revenue bonds and certificates of obligation transactions for the year ended September 30, 2015 were as follows:

Bonds outstanding, October 1, 2014	\$ 1,025,000
Maturities	<u>(55,000)</u>
Bonds outstanding, September 30, 2015	<u>\$ 970,000</u>

The following is a summary of revenue and certificates of obligation bond requirements for business type activities by year as of September 30, 2015:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 55,000	\$ 41,843	\$ 96,843
2017	55,000	39,420	94,420
2018	55,000	36,965	91,965
2019	65,000	34,361	99,361
2020	65,000	31,409	96,409
2021-2025	370,000	108,864	478,864
2025-2030	245,000	41,234	286,234
2031	<u>60,000</u>	<u>2,334</u>	<u>62,334</u>
Total	<u>\$ 970,000</u>	<u>\$ 336,430</u>	<u>\$ 1,306,430</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 8 - LONG-TERM DEBT - Continued

Transactions for the year ended September 30, 2015 are summarized as follows:

	<u>Balance</u> <u>10/01/14</u>	<u>Issues or</u> <u>Additions</u>	<u>Payments or</u> <u>Expenditures</u>	<u>Balance</u> <u>09/30/15</u>	<u>Due Within</u> <u>One Year</u>
Governmental Type Activities:					
Certificates of obligation	\$ 1,630,000	\$	\$ 95,000	\$ 1,535,000	\$ 100,000
Note payable	287,087		8,042	279,045	13,914
Component of Bonded Debt:					
Premium on bonds	40,934		2,290	38,644	2,290
Accrued interest payable	8,119	7,661	8,119	7,661	7,661
Net pension liability**	<u>522,512</u>	<u>342,360</u>	<u>413,108</u>	<u>451,764</u>	<u>45,176</u>
Total governmental activities	<u>2,488,652</u>	<u>350,021</u>	<u>526,559</u>	<u>2,312,114</u>	<u>169,041</u>
Business Type Activities:					
Certificates of obligation	1,025,000		55,000	970,000	55,000
Capital lease*	600,000		50,091	549,909	52,069
Component of Bonded Debt:					
Accrued interest payable	23,863	22,145	23,863	22,145	22,145
Net pension liability**	<u>64,512</u>	<u>45,191</u>	<u>52,857</u>	<u>56,846</u>	<u>5,685</u>
Total business type activities	1,713,375	67,336	181,811	1,598,900	134,899
Less Portion Payable from Restricted Assets:					
Certificate of obligation bond	55,000	5,000	5,000	55,000	55,000
Accrued interest payable	<u>8,150</u>	<u>7,743</u>	<u>8,150</u>	<u>7,743</u>	<u>7,743</u>
Net business-type activities	<u>1,650,225</u>	<u>54,593</u>	<u>168,661</u>	<u>1,536,157</u>	<u>72,156</u>
Total government (net)	<u>\$ 4,138,877</u>	<u>\$ 404,614</u>	<u>\$ 695,220</u>	<u>\$ 3,848,271</u>	<u>\$ 241,197</u>

*See Note 9 for capital lease.

**See Notes 11 and 12 for net pension liability.

NOTE 9 – LEASES

Capital Lease

In January 2014, the City entered into \$ 600,000 Equipment Lease Purchase Agreement with Green Campus Partners, LLC under lease classified as capital lease. The interest rate related to the lease obligation is 3.95% and the maturity date is January 2024. The City will have the option to purchase the Equipment, upon giving written notice to Lessor at least 30 days before the date of purchase and may exercise the option on or after January 31, 2020. During the year ended September 30, 2015, \$ 50,091 of lease expenses and \$ 22,388 of interest expenses related to this lease were paid.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 9 - LEASES - Continued

Capital Lease - Continued

The following is a schedule showing the future minimum lease payments:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2016	\$ 52,069	\$ 21,721	\$ 73,790
2017	54,126	19,665	73,791
2018	56,264	17,527	73,791
2019	58,486	15,304	73,790
2020	60,796	12,994	73,790
2021-2024	<u>268,168</u>	<u>26,994</u>	<u>295,162</u>
Total	<u>\$ 549,909</u>	<u>\$ 114,205</u>	<u>\$ 664,114</u>

Operating Leases

In February of 2015, the City entered into a copier lease that will expire in February 2016. This lease is considered for accounting purposes to be an operating lease. The lease is on a month-to-month basis. Total governmental activities lease expenditures for the year ended September 30, 2015 were \$ 5,273.

On February 26, 2010, the City's Enterprise Fund entered into an interlocal waste water transmission line lease agreement, an operating lease, with the City of Clute. The lease requires quarterly payments on January 15, April 15, July 15, and October 15 of each year from 2010 to 2025. The lease requires total payments of \$ 2,413,627 with varying quarterly payment. During the year ended September 30, 2015 the business-type activities reported expenses in the amount of \$ 133,299. The following are the minimal lease payments required under this lease:

<u>Year Ending September 30,</u>	<u>Total Requirements</u>
2016	\$ 134,366
2017	135,592
2018	137,252
2019	139,087
2020	140,987
2021-2025	735,843
2026	<u>38,025</u>
Total	<u>\$ 1,461,152</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 10 - JOINT OPERATIONS

The City is party to an agreement with the City of Clute to share costs associated with the operation of a sewer treatment plant. The percentage for sharing the operating expenses (excluding maintenance and capital outlay) is determined based upon the metered flow of wastewater for each City. For the year ended September 30, 2015, the City of Richwood's portion of these expenses was determined to be 21.29%, which amounted to \$ 163,819. Further, the City of Richwood shares in 25.00% of maintenance costs (including capital acquisitions) which amounted to \$ 40,097 for the year ended September 30, 2015. The City of Clute maintains both budgetary and accounting responsibility over these operations.

NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN

A. Plan Description

The City of Richwood participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publically available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

B. Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Member may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. Members in most cities can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Some cities have elected retirement eligibility with 25 years of service regardless of age. Most plans also provide death benefits and all provide disability benefits. Effective January 1, 2002, members are vested after 5 years, unless a city opted to maintain 10-year vesting. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

Employees covered by benefit terms

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>19</u>
	46

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Richwood were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Richwood were 12.16% and 11.87% in the calendar years 2015 and 2014, respectively. The City's contributions to TMRS for the year ended September 30, 2015, were \$ 117,413, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions.

Inflation	3.0% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	7.0%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the city, rates multiplied by a factor of 100.0%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

Actuarial assumptions used in the December 31, 2014, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long term-expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Domestic Equity	17.5%	4.80%
International Equity	17.5%	6.05%
Core Fixed Income	30.0%	1.50%
Non-Core Fixed Income	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	<u>5.0%</u>	8.50%
Total	100%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefits payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN – Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a)-(b)</u>
Balance at 12/31/2013	\$ 3,211,565	\$ 2,673,967	\$ 537,598
Changes for the Year:			
Service cost	115,123		115,123
Interest	225,550		225,550
Difference between expected and actual experience	(98,725)		(98,725)
Contributions – employer		108,286	(108,286)
Contributions – employee		46,276	(46,276)
Net investment income		152,992	(152,992)
Benefit payment, including refunds of employee contributions	(93,958)	(93,958)	
Administrative expense		(1,597)	1,597
Other changes		(131)	131
Net changes	<u>147,990</u>	<u>211,868</u>	<u>(63,878)</u>
Balance at 12/31/2014	<u>\$ 3,359,555</u>	<u>\$ 2,885,835</u>	<u>\$ 473,720</u>

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what's the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease In Discount Rate <u>(6.0%)</u>	Discount Rate <u>(7.0%)</u>	1% Increase In Discount Rate <u>(8.0%)</u>
City's Net Pension Liability	\$ 927,769	\$ 473,720	\$ 98,795

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 11 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2015, the city recognized pension expense of \$ 93,896.

At September 30, 2015, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 20,512	\$
Difference between projected and actual investment earnings		54,949
Contributions subsequent to the measurement date	<u>90,221</u>	<u> </u>
Total	<u>\$ 110,733</u>	<u>\$ 54,949</u>

\$ 90,221 reported as deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended September 30,</u>	
2016	\$(15,051)
2017	\$(15,051)
2018	\$(4,335)
2019	-0-
2020	-0-

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM

A. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers, a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2014, there were 198 contributing fire and/or emergency services departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued

On August 31, 2014, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,073
Terminated members entitled to benefits but not yet receiving them	2,161
Active participants (vested and non-vested)	4,036

Senate Bill 411, 65th Legislature, Regular Session (1977) created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Member are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

B. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$ 36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2014, the Part Two contribution rate was 0%, since the first actuarial valuation report after adoption of the rules showed the System to have an adequate contribution arrangement without any Part Two contributions.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

C. Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2014, total contributions (dues, prior service, and interest on prior service financing) of \$ 4,176,659 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The City appropriated \$ 8,700 for the fiscal year ending August 31, 2014.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection D below.

The actuarial valuation as of August 31, 2014 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$ 625,000 each year to pay for part of the System's administrative expenses. On August 31, 2014 the actuarial liabilities exceeded the actuarial assets by \$ 26,093,761.

D. Net Pension Liability

The System's Net Pension Liability (NPL) was measured as of August 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

	<u>City's Portion</u>	<u>System</u>
Total pension liability	\$ 210,921	\$ 109,854,799
Plan fiduciary net position	<u>176,032</u>	<u>91,683,156</u>
Net pension liability	<u>\$ 34,890</u>	<u>\$ 18,171,643</u>
Plan fiduciary net position as a percentage of the total pension liability	83.5%	83.5%

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 3.50%
Salary increases N/A
Investment rate of return 7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities:		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Development international	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnership	5%	7.1%
Fixed Income:		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0%	0.0%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2014 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. That UAAL was based on an actuarial value of assets that was \$ 7.9 million less than the plan fiduciary net position as of August 31, 2014. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 12 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM - Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease In Discount Rate <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase In Discount Rate <u>(8.75%)</u>
City's Net Pension Liability	\$ 71,897	\$ 34,890	\$ 13,298

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At September 30, 2015, the City reported \$ 10,625 deferred outflows of resources and \$ 6,594 deferred inflows of resources related to pension. \$ 6,594 deferred inflows of resources was net difference between projected and actual investment earning.

\$ 10,625 reported as deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2015. \$ 6,594 reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended</u> <u>September 30,</u>	
2016	\$(2,198)
2017	\$(2,198)
2018	\$(2,198)
2019	-0-
2020	-0-

NOTE 13 - RISK POOL PARTICIPATION

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property, worker's compensation, and medical insurance. The City pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible. Workers compensation claims are managed by the Texas Municipal League. In addition, the City has designated a portion of the General Fund fund balance for insurance contingencies, to handle deductibles and other associated costs. For medical insurance claims, the City pays insurance premiums for full coverage and has no liability for claims filed by employees or their covered dependents.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2015

NOTE 14 - LITIGATION

Pending EEOC complaints were filed by two former employees. These complaints were filed, however, the complainants have not proceeded with prosecution of those claims. The City has made a claim by and through its insurer.

NOTE 15 - EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 16, 2016, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RICHWOOD

Richwood, Texas

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND**

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 1,218,423	\$ 1,218,423	\$ 1,233,180	\$ 14,757
Sales taxes	305,000	305,000	536,520	231,520
Franchise fees	180,000	180,000	169,989	(10,011)
Revenue producing facilities	9,500	9,500	11,903	2,403
Fines and fees	156,434	156,434	129,706	(26,728)
Licenses and permits	52,000	52,000	71,651	19,651
Investment earning	1,000	1,000	1,267	267
Miscellaneous	24,000	34,041	54,968	20,927
Total revenues	<u>1,946,357</u>	<u>1,956,398</u>	<u>2,209,184</u>	<u>252,786</u>
Expenditures:				
Current:				
General administration	407,280	417,321	421,163	(3,842)
Judicial	119,684	119,684	115,662	4,022
Police department	718,978	718,978	682,450	36,528
Fire department	121,750	121,750	127,980	(6,230)
City maintenance	243,977	243,977	249,278	(5,301)
Streets and drainage	34,000	34,000	97,803	(63,803)
Parks and recreation	64,200	64,200	77,181	(12,981)
Code enforcement	36,588	36,588	54,003	(17,415)
Capital outlay	<u>176,000</u>	<u>176,000</u>	<u>103,148</u>	<u>72,852</u>
Total expenditures	<u>1,922,457</u>	<u>1,932,498</u>	<u>1,928,668</u>	<u>3,830</u>
Excess of revenues (under) expenditures	<u>23,900</u>	<u>23,900</u>	<u>280,516</u>	<u>256,616</u>
Other Financing Resources (Uses):				
Proceeds from insurance			30,206	30,206
Operating transfers in (out)			<u>(84,327)</u>	<u>(84,327)</u>
Total other financing sources	<u>-0-</u>	<u>-0-</u>	<u>(54,121)</u>	<u>(54,121)</u>
Net changes in fund balances	23,900	23,900	226,395	202,495
Fund balances, beginning	<u>821,951</u>	<u>821,951</u>	<u>821,951</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 845,851</u>	<u>\$ 845,851</u>	<u>\$ 1,048,346</u>	<u>\$ 202,495</u>

CITY OF RICHWOOD
Richwood, Texas

TMRS SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE LAST TEN YEARS (1)
SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF DECEMBER 31, 2014

	2015
Total Pension Liability	
Service cost	\$ 115,123
Interest (on the Total Pension Liability)	225,550
Changes of benefit terms	-0-
Difference between expected and actual experience	(98,725)
Change of assumptions	-0-
Benefit payments, including refunds of employee contributions	(93,958)
Net Change in Total Pension Liability	147,990
Total Pension Liability – Beginning	3,211,565
Total Pension Liability – Ending (a)	\$ 3,359,555
Plan Fiduciary Net Position	
Contributions – Employer	\$ 108,286
Contributions – Employee	46,276
Net Investment Income	152,992
Benefit payments, including refunds of employee contributions	(93,958)
Administrative expense	(1,597)
Other	(131)
Net Change in Plan Fiduciary Net Position	211,868
Plan Fiduciary Net Position – Beginning	2,673,967
Plan Fiduciary Net Position – Ending (b)	\$ 2,885,835
Net Pension Liability (a-b)	\$ 473,720
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	85.90%
Covered Employee Payroll	\$ 925,514
Net Pension Liability as a Percentage of Covered Employee Payroll	51.18%

Notes to Schedule:
N/A

(1) The first TMRS actuarial report was completed for the year ended December 31, 2014 (measurement date), therefore, only one year of required supplemental information is available.

CITY OF RICHWOOD
Richwood, Texas

TMRS SCHEDULE OF CONTRIBUTIONS
FOR THE LAST TEN YEARS (1)
SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF DECEMBER 31, 2014

	2015
Actuarially determined contribution	\$ 108,286
Contributions in relation to the actuarially determined contribution	108,286
Contribution deficiency (excess)	\$ -0-
Covered-employee payroll	\$ 925,514
Contributions as a percentage of covered-employee payroll	11.70%

Notes to Schedule of Contributions

Valuation date

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	25 years
Asset valuation method	10 Year smoothed market; 15% soft corridor
Inflation	3.0%
Salary increases	3.50% to 12.00% including inflation
Investment rate of return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 – 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB

Other Information

Notes Adopted 20 year, any age retirement eligibility

(1) The first TMRS actuarial report was completed for the year ended December 31, 2014 (measurement date), therefore, only one year of required supplemental information is available.

CITY OF RICHWOOD

Richwood, Texas

**TESRS SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE LAST TEN YEARS (1)**

SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF AUGUST 31, 2014

	<u>2015</u>
Total Pension Liability	
Service cost	\$ 3,509
Interest	15,458
Changes in benefit terms	-0-
Difference between expected and actual experience	-0-
Assumption changes	-0-
Benefit payments	<u>(8,003)</u>
Net Change in Total Pension Liability	10,964
Total Pension Liability – Beginning (2)	<u>199,957</u>
Total Pension Liability – Ending (a)	<u>\$ 210,921</u>
Total Fiduciary Net Position	
Contributions by the City	\$ 8,019
Contributions by the State	2,938
Net Investment Income	22,864
Benefit payments	(8,003)
Administrative expense	(318)
Other	<u>-0-</u>
Net Change in Plan Fiduciary Net Position	25,500
Plan Fiduciary Net Position – Beginning	<u>150,531</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 176,031</u>
Net Pension Liability (a-b)	\$ 34,890
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	83.46%
Number of Active Members (3)	6
City's Net Pension Liability per Active Member	\$ 5,815

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) Determined from the end of year total pension liability using the roll back procedure allowed for the initial year of implementing GASB 67.
- (3) There is no compensation for active members.

CITY OF RICHWOOD

Richwood, Texas

TESRS SCHEDULE OF INVESTMENT RETURNS
FOR THE LAST TEN YEARS (1)
SEPTEMBER 30, 2015 WITH MEASUREMENT DATE OF AUGUST 31, 2014

<u>Fiscal Year Ending</u>	<u>Annual Money-Weighted Net Real Rate of Return (2)</u>
August 31, 2013	13.84%
August 31, 2014	14.92%

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) The money weighted rate of return expresses investment performance, net of investment expenses, reflecting the changing amounts actually invested during the year.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

CITY OF RICHWOOD

Richwood, Texas

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

September 30, 2015

	Special Revenue		Total
	Beautification Fund	Transportation Fund	Nonmajor Governmental Funds
<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>			
Assets:			
Cash and cash equivalents	\$ 24,718	\$ 31,438	\$ 56,156
Total assets	24,718	31,438	56,156
Deferred Outflows of Resources:			
Deferred outflows	_____	_____	_____
Total deferred outflows of resources	-0-	-0-	-0-
Total assets and deferred outflows of resources	\$ 24,718	\$ 31,438	\$ 56,156
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>			
Liabilities:			
Total liabilities	\$ -0-	\$ -0-	\$ -0-
Deferred Inflows of Resources:			
Deferred inflows	_____	_____	_____
Total deferred inflows of resources	-0-	-0-	-0-
Fund Balances:			
Restricted:			
Street beautification	24,718		24,718
Transportation		31,438	31,438
Total fund balances	24,718	31,438	56,156
Total liabilities, deferred inflows of resources, and fund balances	\$ 24,718	\$ 31,438	\$ 56,156

CITY OF RICHWOOD

Richwood, Texas

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

September 30, 2015

	Special Revenue		Total Nonmajor Governmental Funds
	Beautification Fund	Transportation Fund	
Revenues:			
Transportation	\$	\$ 103,460	\$ 103,460
Investment earning		27	27
Miscellaneous	<u>7,261</u>		<u>7,261</u>
Total revenues	<u>7,261</u>	<u>103,487</u>	<u>110,748</u>
Expenditures:			
Current:			
General administration	14,589		14,589
Streets and drainage		<u>99,140</u>	<u>99,140</u>
Total expenditures	<u>14,589</u>	<u>99,140</u>	<u>113,729</u>
Excess of revenues over (under) expenditures	(7,328)	4,347	(2,981)
Other Financing Sources - Transfer in	<u>1,000</u>		<u>1,000</u>
Net changes in fund balances	(6,328)	4,347	(1,981)
Fund balances – beginning	<u>31,046</u>	<u>27,091</u>	<u>58,137</u>
Fund balances – ending	<u>\$ 24,718</u>	<u>\$ 31,438</u>	<u>\$ 56,156</u>

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL -
DEBT SERVICE FUND**

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 167,820	\$ 167,820	\$ 169,734	\$ 1,914
Investment earning	100	100	311	211
Total revenues	<u>167,920</u>	<u>167,920</u>	<u>170,045</u>	<u>2,125</u>
Expenditures:				
Debt Service:				
Principal	166,920	166,920	103,042	63,878
Interest and agent fees	<u>1,000</u>	<u>1,000</u>	<u>59,138</u>	<u>(58,138)</u>
Total expenditures	<u>167,920</u>	<u>167,920</u>	<u>162,180</u>	<u>5,740</u>
Net changes in fund balances	-0-	-0-	7,865	7,865
Fund balances, beginning	<u>95,065</u>	<u>95,065</u>	<u>95,065</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 95,065</u>	<u>\$ 95,065</u>	<u>\$ 102,930</u>	<u>\$ 7,865</u>

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL -
BEAUTIFICATION FUND**

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Miscellaneous	\$ 17,700	\$ 17,700	\$ 7,261	\$(10,439)
Total revenues	<u>17,700</u>	<u>17,700</u>	<u>7,261</u>	<u>(10,439)</u>
Expenditures:				
General administration	<u>17,700</u>	<u>17,700</u>	<u>14,589</u>	<u>3,111</u>
Total expenditures	<u>17,700</u>	<u>17,700</u>	<u>14,589</u>	<u>3,111</u>
Excess of revenues over (under) expenditures	-0-	-0-	(7,328)	(7,328)
Other financing sources – transfer in			<u>1,000</u>	<u>1,000</u>
Net changes in fund balances	-0-	-0-	(6,328)	(6,328)
Fund balances, beginning	<u>31,046</u>	<u>31,046</u>	<u>31,046</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 31,046</u>	<u>\$ 31,046</u>	<u>\$ 24,718</u>	<u>\$(6,328)</u>

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL -
TRANSPORTATION FUND**

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Transportation	\$ 100,000	\$ 100,000	\$ 103,460	\$ 3,460
Investment earning			27	27
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>103,487</u>	<u>3,487</u>
Expenditures:				
Street and drainage	<u>100,000</u>	<u>100,000</u>	<u>99,140</u>	<u>860</u>
Total expenditures	<u>100,000</u>	<u>100,000</u>	<u>99,140</u>	<u>860</u>
Net changes in fund balances	-0-	-0-	4,347	4,347
Fund balances, beginning	<u>27,091</u>	<u>27,091</u>	<u>27,091</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 27,091</u>	<u>\$ 27,091</u>	<u>\$ 31,438</u>	<u>\$ 4,347</u>

CITY OF RICHWOOD

Richwood, Texas

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL -
PROPRIETARY FUND - ENTERPRISE FUND**

For the Year Ended September 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Water fees	\$ 616,060	\$ 616,060	\$ 515,095	\$(100,965)
Sewer fees	603,011	603,011	444,184	(158,827)
Garbage fees	5,000	5,000	8,968	3,968
Delinquent charges	25,000	25,000	22,444	(2,556)
Tap and reconnect fees	24,500	24,500	8,632	(15,868)
Miscellaneous	6,500	6,500	6,920	420
Total revenues	<u>1,280,071</u>	<u>1,280,071</u>	<u>1,006,243</u>	<u>(273,828)</u>
Operating Expenses:				
Personnel costs	252,932	252,932	243,418	9,514
Sewer treatment plant operations	250,000	250,000	337,216	(87,216)
Water costs – BWA	230,000	230,000	192,994	37,006
Utilities and telephone	45,000	45,000	49,293	(4,293)
Repairs and maintenance	85,000	85,000	108,921	(23,921)
Supplies	39,500	39,500	31,456	8,044
Miscellaneous	117,890	117,890	24,413	93,477
Operating expenses before depreciation	1,020,322	1,020,322	987,711	32,611
Depreciation	<u>259,749</u>	<u>259,749</u>	<u>332,151</u>	<u>(72,402)</u>
Total operating expenses	<u>1,280,071</u>	<u>1,280,071</u>	<u>1,319,862</u>	<u>(39,791)</u>
Operating income (loss)	<u>-0-</u>	<u>-0-</u>	<u>(313,619)</u>	<u>(313,619)</u>
Non-Operating Revenues (Expenses):				
Investment income			317	317
Interest expense and agent fees			(84,282)	(84,282)
Total non-operating revenues (expenses)	<u>-0-</u>	<u>-0-</u>	<u>(83,965)</u>	<u>(83,965)</u>
Income (loss) before contributions and operating transfers	<u>-0-</u>	<u>-0-</u>	<u>(397,584)</u>	<u>(397,584)</u>
Capital contributions			1,491	1,491
Transfer in			83,327	83,327
Change in net position	<u>-0-</u>	<u>-0-</u>	<u>(312,766)</u>	<u>(312,766)</u>
Net position, beginning	<u>5,357,183</u>	<u>5,357,183</u>	<u>5,357,183</u>	<u>-0-</u>
Net position, ending	<u>\$ 5,357,183</u>	<u>\$ 5,357,183</u>	<u>\$ 5,044,417</u>	<u>\$(312,766)</u>

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